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necessary to impose manpower controls to ensure appropriate alignment as to age, qualifications, and other characteristics of its employees engaged in conducting or supporting foreign intelligence operations. Insofar as possible, imbalances should be and are corrected by the reassignment of officers who cannot, or should not, continue in such work to other fields of work in the Agency. However, encouraged and induced attrition will continue to be necessary and a program of managed attrition is feasible only if it is linked to a system of retirement benefits providing fair annuities to those who have earned early retirement.

(2) The proposed bill would provide these individuals with a more equitable annuity, beginning immediately upon their separation. This would place them in a better position to accept less demanding and probably lower-paid employment. It is often difficult for an Agency employee to obtain other employment. The special skills required for intelligence work, developed over the years by training and experience within the Agency, are not directly applicable to other fields. This situation is aggravated by security considerations which do not allow an Agency employee to describe to a prospective employer the substance of his Agency duties and responsibilities. There is also a reluctance on the part of other employers, both Governmental and private, who are engaged in business overseas to hire a former intelligence officer. This attitude reflects their concern that the attitude of foreign officials toward their enterprises might be adversely affected if they were known to employ "former spies."

(3) During the past year, the Agency has separated some 125 individuals as surplus to its needs because of the several factors described above. These people had given years of competent and faithful service to the Agency and to the Government. The process of terminating their employment was made the more painful because of the relatively inadequate assistance which the Agency could offer them in making occupational transfers or in retiring prematurely.

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## 2. Proposed Retirement System

a. In order to minimize the adverse effects of such programs on the Agency's ability to recruit and retain the caliber of personnel needed, and particularly to minimize their effects on the dedicated personnel already in the service of the Agency, better provision must be made for the futures of those individuals who are separated before completing a full-term career. An important means for doing so is to establish a retirement system permitting earlier retirement with a more nearly adequate and equitable annuity than is possible under the Civil Service retirement system.

b. Careful study has been devoted to this matter. Recognizing the difficulties in developing an entirely new retirement system, the Agency examined existing systems. We have determined that the Foreign Service system fulfills Agency requirements and is appropriate for those Agency employees whose careers involve conditions of service comparable

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Further, by adopting a system corresponding to that of the Foreign Service, the Agency can take advantage of the considerable study and experience which have gone into its development.

c. Appendix II compares the pertinent provisions of the proposed Agency retirement system and the Foreign Service and the Civil Service retirement systems. In format, this chart is similar to one appearing in the Report of the House Committee on Foreign Affairs in the second session of the 86th Congress. It was prepared at that time in connection with proposed amendments to the Foreign Service Act of 1946, as amended, relating to the retirement system, which proposals were subsequently enacted into law.

d. All of the Agency's employees do not serve under conditions warranting other than the normal retirement considerations. Consequently, the Agency does not intend to place all of its personnel under the proposed new system. Those who are to be designated for coverage will undergo a rigid selection process, the essential criteria for coverage being

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I have brought with me a series of three charts highlighting the specific features of the proposed system which are different from the civil service retirement system and which are of particular importance in providing a suitable retirement program for the employees to be covered.

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[NOTE: These remarks follow the sequence of items on charts 1, 2, and 3 comparing the civil service retirement system with the Foreign Service and proposed CIA retirement systems. Small versions of these charts follow the comments in this book. Large versions will be available for display at the hearing.]

CHART 1. General [Chart follows on page 6b.]

1. The employee's contribution is the same under both systems -  $6\frac{1}{2}\%$  of his basic pay.
2. The annuity formula under Foreign Service is a straight 2% of the employee's average salary for his highest paid five years of service. Under civil service, the formula is  $1\frac{1}{2}\%$  for his first five years,  $1\frac{3}{4}\%$  for the second five, and 2% for the remainder.
3. The maximum annuity under civil service is 80% of the employee's average high-five-year salary while it is 70% under Foreign Service. However, few employees under our proposed retirement system would have enough years of service to make this difference significant.
4. The mandatory retirement age under civil service for all employees is 70 while it is 60 for most employees under Foreign Service.

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Chart 1

COMPARISON OF PRINCIPAL PROVISIONS OF THE CIVIL SERVICE,  
FOREIGN SERVICE, AND PROPOSED CIA RETIREMENT SYSTEMS

PROVISIONS	CIVIL SERVICE	FOREIGN SERVICE & CIA
<u>General</u>		
Employee Contribution	6 1/2% of basic pay	Same
Basic Annuity Formula	Based on high 5-year-average salary: $\frac{1\ 1/2\% \text{ of high } 5 \times \text{1st } 5 \text{ yrs service}}{+ \frac{1\ 3/4\% \text{ of high } 5 \times \text{2nd } 5 \text{ yrs service}}{+ \frac{2\% \text{ of high } 5 \times \text{remaining yrs service}}{\text{service}}}$	Based on high-5-year average salary: $\frac{2\% \text{ of high-5} \times \text{total years service}}{\text{service}}$
Maximum Annuity	80% of high-5 salary	70% of high-5 salary
Mandatory Retirement	Age 70 with 15 years service	Career Ambassador and Career Minister or GS-18 and above: age 65 FSO Class 1 and below or GS-17 and below: age 60

Chart 1

CHART 2. BASIC TYPES OF RETIREMENT1. Optional Retirement at Age 50

Under the proposed system, an employee can voluntarily retire at age 50 and receive the full annuity which he has earned. Under the civil service system, the earliest age for voluntary retirement is 55 and this is permitted only when the employee has 30 years of service. Moreover, his annuity is reduced by one percent for each year that he is under 60.

For example, an employee whose average high-five-year salary has been \$7,575 (or about GS-9) and who has 20 years of service when he reaches age 50 can voluntarily retire under our proposed system and receive an annuity of \$3,030. Or, if his average high-five-year salary had been \$11,515, in the GS-13 range, he would receive an annuity of \$4,606. Or, if his average high-five-year salary had been \$16,005, or about GS-15, his annuity would be \$6,402. If this same employee had been under the civil service system, he could not voluntarily retire. If he left the service voluntarily, he would have the option of withdrawing his contributions from the civil service retirement system or of receiving a deferred annuity when he reached age 62.

An employee who has reached age 55 and has 30 years of service may retire voluntarily under either system. However, his annuity would be 12% higher under our proposed system than under the civil service system. This difference results from two factors: (1) under civil service, his annuity would be reduced 5% because of his age: and (2) the annuity formula under the proposed system is a straight 2% while the civil service formula has a graduated scale.

Approved For Release 2002/05/06 : CIA-RDP78-03721A000300010046-6  
CHART 2. BASIC TYPES OF RETIREMENT (Continued)

2. Discontinued service retirement and selection out

The proposed system provides an immediate annuity based on the employee's total period of service if he is in grade GS-14 or higher and is retired involuntarily. If the employee is in grade GS-13 or below, he receives a separation payment equivalent to one month's salary for each year of service. He may also obtain either a refund of the retirement withholdings from his salary or leave these amounts to his credit toward a deferred annuity at age 62.

Under the civil service system, an employee who is involuntarily separated at age 50 with 20 years of service or at any age with 25 years of service can receive an immediate annuity. However, his annuity is reduced 1% per year for each year he is under age 60 down to age 55 and 2% per year for each year he is under 55 down to 50. The maximum reduction under this formula is 15%.

To give some examples: An employee who is involuntarily separated at age 50 with 20 years of service will receive a 30% higher annuity under the proposed system than under the civil service system. If his average high-five-year salary had been \$7,575 in the GS-9 range, his annuity would be \$2,334 under civil service and \$3,030 under our proposed system. An average high-five-year salary of \$11,515, roughly GS-13, would result in an annuity of \$3,548 under civil service but \$4,606 under our proposed system. And an average high-five-year salary of \$16,005, in the GS-15 bracket, would produce an annuity of \$4,930 under civil service but \$6,402 under our proposed system.

CHART 2. BASIC TYPES OF RETIREMENT (Discontinued Service - Cont'd)

To illustrate further, if the employee were 55 years old and had 25 years of service when he was terminated, his annuity under the proposed system would be 14% higher than under civil service. If he were 45 years old and had 15 years of service, his annuity under either system would be deferred until age 62 if he were in grade GS-13 or below. However, under the proposed system, the employee would receive a separation payment and his annuity, when he received it, would be 14% higher than under civil service.

3. Disability benefits

An employee retired for disability under either system is guaranteed a minimum annuity equal to 40% of his average salary over his highest-paid five years of service, or by computing his annuity as if he had continued in service until age 60, whichever is less. However, his disability annuity under our proposed system is fully exempt for income tax purposes; under the civil service system, Internal Revenue's provision for "sick pay exclusion" exempts only the first \$100 per week and this exemption is discontinued when he reaches optional retirement age.

Dollar-wise, the gross annuity is the same under either system for the employee who retires under disability at, for example, age 45 with 15 years of service or at age 50 with 20 years of service. However, at age 55 with 25 years of service, the annuity under our proposed system is 8% higher than under civil service because of the difference in formulas used.

[NOTE: A table giving further examples of the annuities payable under the two systems as for the basic types of retirement is attached as page 61.]



COMPARISON OF PRINCIPAL PROVISIONS OF THE CIVIL SERVICE,  
FOREIGN SERVICE, AND PROPOSED CIA RETIREMENT SYSTEMS

PROVISIONS	CIVIL SERVICE	FOREIGN SERVICE & CIA
<u>Optional Retirement</u> (immediate annuity)	Age 60 - 30 years service Age 62 - 5 years service Age 55 - 30 years service-annuity is reduced by 5%	Age 50 - 20 years service (full earned annuity - not reduced)
<u>Discontinued Service - Selection Out</u>	Any age - 25 years service Age 50 - 20 years service (immediate, but annuity is reduced by 15%)	FSO Classes 1-3 or GS-14 and above: Immediate annuity at any age 5 years service (annuity not reduced) FSO Classes 4-7 or GS-13 and below: Separation pay at rate of one month's salary per year of service up to one year's salary; plus deferred annuity at age 60. Age 50 - 20 years service (full earned annuity - not reduced)
<u>Disability Retirement</u>  Age and Service  Minimum Annuity    Taxability	  Any age - 5 years service  Lesser of: 40% high 5-year- average salary or annuity computed by extending service to age 60.  Under Federal income tax "Sick Pay" exclusion, first \$100 per week tax exempt until optional retirement age.	  Same  Same    Fully tax exempt.

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CHART 3. SURVIVOR ANNUITY - REEMPLOYMENT OF ANNUITANT [Chart follows  
on page 6h]

1. Survivor Annuity to Widow

Under either system, a retiree may elect to receive a reduced annuity in order to provide a survivor benefit to his widow. Under Foreign Service, the widow's annuity continued for her lifetime. Under civil service, her annuity terminates if she remarries.

Under present law, there are certain aspects which are more favorable under civil service than Foreign Service. Specifically, the reduction in the employee's annuity to provide a survivor annuity is about \$90 less under civil service than under Foreign Service. Also, the amount of the survivor's annuity is greater under civil service -- 55% of the retiring employee's annuity as compared to 50%. It is anticipated that the Foreign Service will be coming forward with legislative proposals for equalizing these factors.

2. Reemployment of Annuitant

Under the civil service system, an annuitant who is reemployed in the Federal service must deduct from his salary the amount of his annuity payments. Under the Foreign Service system, he may receive both his new salary and his annuity up to the basic compensation which he received at the time he retired.

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COMPARISON OF PRINCIPAL PROVISIONS OF THE CIVIL SERVICE,  
FOREIGN SERVICE, AND PROPOSED CIA RETIREMENT SYSTEMS

PROVISIONS	CIVIL SERVICE	FOREIGN SERVICE & CIA
<u>Survivor Annuity to Widow</u>		
Reduction of employee's annuity	2 1/2% of first \$3,600 plus 10% of balance	2 1/2% of first \$2,400 plus 10% of balance
Amount of widow's annuity	55% of employee's basic annuity	50% of employee's basic annuity
Termination of widow's annuity	Death or remarriage	Death only
<u>Reemployment of Annuitant</u>	Annuity offset against salary	Annuity plus salary cannot exceed basic pay at time of retirement

COMPARISON OF CIVIL SERVICE, FOREIGN SERVICE, AND PROPOSED CIA RETIREMENT ANNUITIES

Type of Retirement	Age and Service	Average High-5 Salary	Basic Annuity Under:		% Annuity Higher Under Proposed System
			Civil Service	Foreign Service/CIA	
Optional	50 - 20	\$7,575 <sup>1/</sup>	No Provision	\$3,030.00	NA
		11,515 <sup>2/</sup>	for Optional	4,606.00	NA
		16,005 <sup>3/</sup>	Retirement	6,402.00	NA
	55 - 25	7,575	No Provision	3,787.00	NA
		11,515	for Optional	5,757.00	NA
		16,005	Retirement	8,002.00	NA
	55 - 30	7,575	4,047.00	4,545.00	12%
		11,515	6,154.00	6,909.00	12%
		16,005	8,550.00	9,603.00	12%
Discontinued Service- Selection Out	45 - 15	7,575	1,988.00 <sup>4/</sup>	2,272.00 <sup>5/</sup>	14%
		11,515	3,022.00 <sup>4/</sup>	3,454.00 <sup>5/</sup>	14%
		16,005	4,200.00 <sup>4/</sup>	4,800.00	14%
	50 - 20	7,575	2,334.00	3,030.00	30%
		11,515	3,548.00	4,606.00	30%
		16,005	4,930.00	6,402.00	30%
	55 - 25	7,575	5,059.00	5,757.00	14%
		11,515	5,059.00	5,757.00	14%
		16,005	7,030.00	8,002.00	14%
Disability	45 - 15	7,575	3,030.00	3,030.00	0
		11,515	4,606.00	4,606.00	0
		16,005	6,402.00	6,402.00	0
	50 - 20	7,575	3,030.00	3,030.00	0
		11,515	4,606.00	4,606.00	0
		16,005	6,402.00	6,402.00	0
	55 - 25	7,575	3,503.00	3,787.00	8%
		11,515	5,325.65	5,757.00	8%
		16,005	7,400.00	8,002.00	8%

1/ GS-9 Step 5 2/ GS-13 Step 2 3/ GS-15 Step 4 4/ Deferred to age 62 5/ Deferred; plus Separation Compensation

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as follows:

(1) Career employees whose duties and responsibilities are predominantly concerned with the conduct and support of intelligence operations in foreign countries or with covert support in the United States of such operations under comparable conditions; or,

(2) Career employees whose duties are so specialized that they are placed at a special disadvantage when required to seek other employment.

e. At any moment in time, approximately [ ] employees are serving abroad and a like number are at headquarters as replacements. It is estimated that a maximum of [ ] employees (or approximately [ ] our total employee group) will qualify for coverage under the proposed system; the remainder will not attain eligibility due to attrition and failure to qualify for various reasons.

f. Normally, we would anticipate that an average of some 27 of those employees who would be covered under the proposed system would become eligible for optional retirement under the Civil Service retirement system during each of the next five years. For the reasons presented above and in order to correct imbalances in the age make-up of this group, we plan under the proposed system to increase the average number of retirements from this group by about 40 in each of these years. Also, during the past year, the average age of Agency personnel who retired under the Civil Service retirement system was 66. We plan in time to lower the average retirement age of those covered under the proposed system to about 55 years, which is comparable to the average retirement age in the Foreign Service.

g. The specific provisions of the proposed retirement system and other amendments to the Central Intelligence Agency Act and explanatory notes are contained in Appendix I, Sectional Analysis and Explanation.

### 3. Cost Estimates

a. There will be certain increased costs for the administration of the retirement system. For reasons of efficiency and security, it is considered essential that full administration of the program be accomplished.

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With your permission, I will deviate from the formal text of the explanation again at this point and merely summarize the paragraphs on cost estimates. If you have questions on the details, I shall of course be glad to try to answer them.

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We estimate that, when our proposed retirement program is fully developed, the maximum additional cost to the Government would be [ ] annually if it were fully and currently funded. However, it has not been the practice of the Government to fully fund its retirement programs and actual appropriation costs to CIA would be substantially less. We have calculated the additional annuity payout cost for the next five years at \$521,550. This is based on an estimate of 67 people retiring each year at an average additional annuity cost of \$642 each.

These costs would be substantially offset by the fact that there is a considerable time lag in the chain of recruitment, reassignment, and promotion actions which would result from these retirements.

As a final cost factor, we estimate that the cost to the Agency of administering this program will increase over a five-year period and level off at about \$85,000. This amount consists of the salaries and related costs for eight employees.

[NOTE: Omit reading paragraph 3, Cost Estimates, pages 7 - 9 of the printed text.]

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Following General Carter's presentation of the preceding material, Mr. Houston will review the Sectional Analysis and Explanation of the Bill.

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within the Agency. It is estimated that by the end of the first five years the administration of the proposed program would cost approximately \$85,000 per year including an increased staffing requirement of approximately eight man-years. Internal administration of the program would include determinations of eligibility and entitlements, payment of retirement benefits, and all related administrative matters.

b. Program costs cannot be estimated with comparable precision. Nevertheless, reasonably valid estimates have been made on the basis of actuarial experience of the Civil Service and the Foreign Service systems.

(1) The most recent annual report of the chairman of the Civil Service Commission presents cost factors indicating that in addition to the 13% of payroll contributed by the employee and the employing agency the government would be required to contribute an additional .83% of the annual payroll of covered employees to support the benefits accruing on account of current service. (Cost factors updated to include the cost of increased annuity benefits provided under Public Law 87-793 are not yet available. It can be anticipated, however, that they will increase the .83% of payroll additional contribution by the government and thus narrow the differential between the Civil Service and Foreign Service systems stated below.)

(2) Similar although not fully comparable data pertaining to the Foreign Service retirement system indicate that additional contributions by the government of 10.69% would be required. Using the difference (9.86%) between these two estimates as reflecting the cost differentials of the differing benefits of the two programs and applying this difference to the estimated annual payroll of the [ ] Agency employees eligible for the proposed retirement system, we compute that a maximum additional government contribution of [ ] annually would be required. However, it has not been government practice for many years to fully fund its retirement programs. Further, there have been special charges against the Foreign Service Retirement Fund which go beyond the basic benefits of the proposed system.

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c. Increased payout costs for the next five years can be estimated through comparison of the basic annuity benefits under the proposed system over the Civil Service system. Our estimate assumes reduction in retirement age of the eligible group to 55 years and attainment of the planned rate of 67 retirements per year. It also, based upon age and grade characteristics of the group, assumes retirement with 25 years of service and an average high-five salary at about the second step of GS-13. Lastly, in computing the increased payout, the estimated high-five salary was adjusted to reflect salary increases and the increases in civil service annuities authorized by the Postal Service and Federal Employees Salary Act of 1962.

#### ESTIMATE OF TOTAL INCREASED ANNUITY PAYMENTS

<u>Fiscal Year</u>	<u>Annuitants (Cumulative Total)</u>	<u>Increased Annuity Payments (Annual Payout)</u>
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d. The chain of recruitment, reassignment, and promotion actions created by this annual retirement of officers would result in a considerable lapse in salary expenses. Assuming an average lag of six months in this process, the reduction of expenditures would approximate \$2,516 per retirement and would total approximately  over a five-year period. This amount would almost offset the estimated increase in annuity payments for the first five years that the new system was in operation.

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